White House Fact Sheet: The North American Free Trade Agreement

August 12, 1992

The President today announced that the United States, Mexico, and Canada have completed negotiation of a North American free trade agreement (NAFTA). The NAFTA will phase out barriers to trade in goods and services in North America, eliminate barriers to investment, and strengthen the protection of intellectual property rights. As tariffs and other trade barriers are eliminated, the NAFTA will create a massive open market, over 360 million people and over $6 trillion in annual output.

Background

With sharp increases in global trade and investment flows, U.S. economic growth and job creation have become closely tied to our ability to compete internationally. Since 1986, U.S. exports have increased by almost 90 percent, reflecting our success in opening foreign markets and the competitiveness of American industry. In 1991, the U.S. exported over $422 billion of industrial and agricultural products and over $164 billion in services, making the United States the world's largest exporter, ahead of Germany and Japan. More than 7.5 million U.S. jobs are tied to merchandise exports, up from 5 million in 1986. Of these jobs, 2.1 million are supported by exports to Canada and Mexico.

For many years, Mexico used high tariffs and licensing restrictions in an effort to encourage industrial development and import substitution. Under President Salinas and his predecessor, President de la Madrid, the Mexican Government has opened its market and implemented sweeping economic reforms. In 1986, Mexico joined the General Agreement on Tariffs and Trade (GATT) and began reducing its tariffs and trade barriers.

As a result, bilateral trade has increased dramatically. From 1986 to 1991, U.S. exports to Mexico increased from $12.4 billion to $33.3 billion, twice as fast as U.S. exports to the rest of the world. U.S. agricultural exports rose 173 percent to $3 billion, consumer goods tripled to $3.4 billion, and exports of capital goods surged to $11.3 billion from $5 billion. U.S. exports to Mexico now support approximately 600,000 American jobs, while exports to Canada support 1.5 million.

Economic reforms have also been good for Mexico. Its inflation rate has dropped from over 100 percent in 1986 to under 20 percent in 1991, and its economy has grown at an average annual rate of 3.1 percent over the last 4 years, after stagnating during the 1980's.

In June 1990, Presidents Bush and Salinas endorsed the idea of a comprehensive U.S.-Mexico free trade agreement and directed their trade ministers to begin preparatory work. Canada joined the talks in February 1991, leading to the three-way negotiation known as NAFTA. Formal negotiations began in June 1991 after Congress extended through May 1993 the Fast Track procedures originally enacted in the Trade Act of 1974, authorizing the administration to submit the agreement with implementing legislation for an up-or-down vote.

The President's trade strategy, which is a key part of his overall economic growth plan, is designed to create new markets for American products and provide new opportunities for American companies and workers.

The NAFTA Agreement

The NAFTA will create a free trade area (FTA) comprising the U.S., Canada, and Mexico. Consistent with GATT rules, all tariffs will be eliminated within the FTA over a transition period. The NAFTA involves an ambitious effort to eliminate barriers to agricultural, manufacturing, and services trade, to remove investment restrictions, and to protect effectively intellectual property rights. In addition, the NAFTA marks the first time in the history of U.S. trade policy that environmental concerns have been directly addressed in a comprehensive trade agreement. Highlights of the NAFTA include:

Tariff Elimination. Approximately 65 percent of U.S. industrial and agricultural exports to Mexico will be eligible for duty-free treatment either immediately or within 5 years. Mexico's tariffs currently average 10 percent, which is 2½ times the average U.S. tariff.

Reduction of Motor Vehicle and Parts Tariffs. U.S. autos and light trucks will enjoy greater access to Mexico, which has the fastest growing major auto market in the world. With NAFTA, Mexican tariffs on vehicles and light trucks will immediately be cut in half. Within 5 years, duties on three-quarters of U.S. parts exports to Mexico will be eliminated, and Mexican "trade balancing" and "local content requirements" will be phased out over 10 years.

Auto Rule of Origin. Only vehicles with substantial North American parts and labor content will benefit from tariff cuts under NAFTA's strict rule of origin. NAFTA will require that autos contain 62.5 percent North American content, considerably more than the 50 percent required by the U.S.-Canada Free Trade Agreement. NAFTA contains tracing requirements so that individual parts can be identified to determine the North American content of major components and sub-assemblies, *e.g.* engines. This strict rule of origin is important in ensuring that the benefits of the NAFTA flow to firms that produce in North America.

Expanded Telecommunications Trade. NAFTA opens Mexico's $6 billion market for telecommunications equipment and services. It gives U.S. providers of voice mail or packet-switched services nondiscriminatory access to the Mexican public telephone network and eliminates all investment restrictions by July 1995.

Reduced Textiles and Apparel Barriers. Barriers to trade on $250 million (over 20 percent) of U.S. exports of textiles and apparel to Mexico will be eliminated immediately, with another $700 million freed from restrictions within 6 years. All North American trade restrictions will be eliminated within 10 years and tough rules of origin will ensure that benefits of trade liberalization accrue to North American producers.

Increased Trade in Agriculture. Mexico imported $3 billion worth of U.S. agricultural goods last year, making it our third-largest market. NAFTA will immediately eliminate Mexican import licenses, which covered 25 percent of U.S. agricultural exports last year, and will phase out remaining Mexican tariffs within 10 to 15 years.

Expanded Trade in Financial Services. Mexico's closed financial services markets will be opened, and U.S. banks and securities firms will be allowed to establish wholly owned subsidiaries. Transitional restrictions will be phased out by January 1, 2000.

New Opportunities in Insurance. U.S. firms will gain major new opportunities in the Mexican market. Firms with existing joint ventures will be permitted to obtain 100 percent ownership by 1996, and new entrants to the market can obtain a majority stake in Mexican firms by 1998. By the year 2000, all equity and market share restrictions will be eliminated, opening up completely what is now a $3.5 billion market.

Increased Investment. Mexican "domestic content" rules will be eliminated, permitting additional sourcing of U.S. inputs. And for the first time, U.S. firms operating in Mexico will receive the same treatment as Mexican-owned firms. Mexico has agreed to drop export performance requirements, which presently force companies to export as a condition of being allowed to invest.

Land Transportation. More than 90 percent of U.S. trade with Mexico is shipped by land, but U.S. truckers currently are denied the right to carry cargo or set up subsidiaries in Mexico, forcing them to "hand off" trailers to Mexican drivers and return home empty. NAFTA will permit U.S. trucking companies to carry international cargo to the Mexican States contiguous to the U.S. by 1995 and gives them cross-border access to all of Mexico by the end of 1999. U.S. railroads will be able to provide their services in Mexico, and U.S. companies can invest in and operate land-side port services. The combination of truck, rail, and port breakthroughs will help create an efficient intermodal North American transport system.

Protection of Intellectual Property Rights. NAFTA will provide a higher level of protection for intellectual property rights than any other bilateral or multilateral agreement. U.S. high technology, entertainment, and consumer goods producers that rely heavily on protection for their patents, copyrights, and trademarks will realize substantial gains under NAFTA. The agreement will also limit compulsory licensing, resolving an important concern with Canada.

The objective of NAFTA is to open markets. It is not designed to create a closed regional trading bloc and does not erect new barriers to non-participants. The NAFTA is fully consistent with GATT criteria for free trade agreements and with U.S. support for strengthening the multilateral trading system in the Uruguay round.

Economic Studies

At the request of the Office of the U.S. Trade Representative, the U.S. International Trade Commission surveyed and evaluated the various economic analyses of NAFTA. In May of this year, the USITC reported that:

> [T]here is a surprising degree of unanimity in the results regarding the aggregate effects of NAFTA. All three countries are expected to gain from a NAFTA.

These independent studies found that NAFTA would increase U.S. growth, jobs, and wages. They found that NAFTA would increase U.S. real GDP by up to 0.5 percent per year once it is fully implemented. They projected aggregate U.S. employment increases ranging from under 0.1 percent to 2.5 percent. The studies further project aggregate increases in U.S. real wages of between 0.1 percent to 0.3 percent.

U.S. exports to Mexico currently support over 600,000 American jobs. The Institute for International Economics recently estimated this figure will rise to over 1 million U.S. jobs by 1995 under NAFTA.

Environment, Labor, and Adjustment Issues

In a May 1, 1991, letter to the Congress, the President described actions that the administration would implement to address concerns regarding the impact of free trade on the environment, labor rights, and worker adjustment programs.

Environment. The administration has moved forward with a comprehensive bilateral environmental agenda to allay concerns that free trade could undermine U.S. environmental and food safety regulations or lead to environmental degradation on the U.S.-Mexico border. During the last year, substantial progress has been made. Highlights include the following:

—*Standards.* The NAFTA allows the U.S. to maintain its stringent environmental, health, and safety standards. It allows States and localities to enact tougher standards based on sound science. It encourages "upward harmonization" of national standards and regulations, and prohibits the lowering of standards to attract investment.

—*Integrated Border Plan.* In February 1992, EPA and its Mexican counterpart (SEDUSOL) completed a comprehensive plan for addressing air, soil, water, and hazardous waste problems in the border area. Agreement has been reached on measures to implement the first stage of the plan covering the period 1992 to 1994.

—*Border Infrastructure.* The President has proposed a 70-percent increase in the budget for border environmental projects to $241 million for FY 1993, including $75 million for the "colonias" (unincorporated communities on the U.S. side of the border that often lack effective sanitation services and running water) and over $120 million for border wastewater treatment plants.

—*Border Plan/FY 1993 Appropriations.* To date, in the FY 1993 appropriations process, the House of Representatives has refused to fund the $50 million EPA request for the colonias and cut the administration's $65 million request for a Tijuana-San Diego sewage treatment plant to $32 million. For its part, the Senate failed to fund $120 million of the requested funds for border wastewater treatment. The President has called upon Congress to reverse these cuts.

—*Environmental Conference.* On September 17, 1992, EPA Administrator

Reilly will host a trilateral meeting with the Canadian and Mexican environmental ministers in Washington, DC, to discuss environmental aspects of NAFTA.

Worker Rights. Mexico has a comprehensive labor law that provides workers with extensive legal rights. The economic benefits of the NAFTA will provide Mexico with resources to move forward with vigorous enforcement initiatives launched by the Salinas administration.

—*Labor Cooperation.* The U.S. Department of Labor has negotiated a 5-year Memorandum of Understanding (MOU) to strengthen bilateral cooperation with respect to occupational health and safety standards, child labor, labor statistics, worker rights, labor-management relations, and workplace training. Several joint MOU initiatives are now underway.

Safeguards. President Bush committed that NAFTA would contain measures to ease the transition for import-sensitive U.S. industries. For our sensitive sectors, tariffs will be phased out in 10 years, with particularly sensitive sectors having a transition of up to 15 years. In addition, NAFTA contains "safeguard" procedures that will allow the U.S. to reimpose tariffs in the event of injurious import surges.

Worker Adjustment. Dislocations in the U.S. are likely to be minimal, since U.S. trade barriers are already quite low. Nonetheless, during the Fast Track debate, the President promised that dislocated U.S. workers will receive timely, comprehensive, and effective services and retraining, whether through improvement or expansion of an existing program or creation of a new program. The administration has already begun consulting with the relevant congressional committees regarding adjustment services for displaced workers.

Next Steps

The timing of congressional consideration is governed by the Fast Track procedures, which require the President to notify the Congress of his intent to enter into the agreement at least 90 days before it is signed. Although today's announcement reflects the completion of negotiations, the draft text probably will not be finished until September, since further legal drafting and review are required to implement the understandings reached by the negotiators.

After the agreement is signed, legislation must be prepared to implement it, including any necessary changes to U.S. law. Under the Fast Track, the NAFTA will not go into effect until the Congress has approved the implementing legislation on an up-or-down vote. The approval process must occur within a specified time: 90 "session" days of Congress.

Message to the Senate Transmitting the Treaty on Open Skies

August 12, 1992

To the Senate of the United States:

I transmit herewith, for the advice and consent of the Senate to ratification, the Treaty on Open Skies. I believe that the Treaty on Open Skies is in the best interest of the United States. By engaging all participating States actively in cooperative observation, the Treaty on Open Skies will strengthen international stability. The Treaty also provides an important means of increasing mutual understanding of military forces and activities, thus easing tensions and strengthening confidence and security, not only in the area covered by the Treaty, but in other areas as well.

The Treaty includes twelve Annexes, which are integral parts thereof. The Treaty, together with the Annexes, was signed at Helsinki on March 24, 1992. I transmit also, for the information of the Senate, the Report of the Department of State on the Treaty.

In addition, I transmit herewith, for the information of the Senate, five documents associated with, but not part of, the Treaty that are relevant to the Senate's consider-